



*Increased Automated Controls  
Could Further Improve Accountability  
Over Manual Refunds*

**September 14, 2009**

**Reference Number: 2009-40-131**

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TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

September 14, 2009

**MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION**

**FROM:** *Michael R. Phillips*  
Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Increased Automated Controls Could Further Improve Accountability Over Manual Refunds (Audit # 200840033)

This report presents the results of our review to determine if controls over manual refunds are effective in minimizing the risk of issuing erroneous refunds. The audit scope included both individual and business manual refunds issued during Calendar Years 2005, 2006, and 2007. This audit was initiated at the request of the Commissioner, Wage and Investment Division.

*Impact on the Taxpayer*

During Calendar Year 2007, the Internal Revenue Service (IRS) issued approximately 184,000 manual refunds totaling over \$1.5 billion to individual taxpayers and approximately 70,000 manual refunds totaling almost \$32 billion to business taxpayers. Our review identified that electronic data files supporting manual refund transactions were inaccurate, incomplete, and not always maintained by the IRS. As a result, neither the IRS nor its oversight organizations are able to perform systemic analyses to identify erroneous manual refunds. Given the large dollar amounts involved with manual refunds, this could result in a significant loss of Federal Government revenues.

*Synopsis*

A manual refund is a refund that is not generated through normal Master File<sup>1</sup> computer processing. Manual refunds can be issued within 2 to 3 business days, compared to the 6 to

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<sup>1</sup> The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



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16 business days for the issuance of a Master File computer-generated refund based on the filing of a tax return. There are two ways IRS employees can initiate a manual refund: 1) via the Integrated Data Retrieval System (IDRS),<sup>2</sup> or 2) a manual refund posting voucher (non-IDRS).<sup>3</sup>

IRS management acknowledges that the manual refund process presents a higher risk because these refunds are not handled through its normal systemic process. The majority of the process to request and approve the billions in manual refunds is a paper-driven manual process.

Our review identified that controls have been implemented in an effort to minimize the risk of issuing erroneous manual refunds. These controls include:

- Ensuring no employee can systemically input and authorize a manual refund payment.
- Requiring the completion of a request form.
- Requiring an Approving Official (front-line manager) to review manual refund request packages and approve via signature the legitimacy of the manual refund transaction.

***The current process to request and approve manual refunds is paper driven. Increased automated controls are needed to improve accountability.***

Nonetheless, increased automated controls could further improve the accountability and efficiency over manual refunds. Our review identified that electronic data files supporting manual refund transactions were inaccurate, incomplete, and not always maintained by the IRS. Furthermore, the managerial approval of manual refunds is a manual, resource-intensive process. Current processes enable IRS employees to electronically request manual refunds, electronically confirm the accuracy of information, and electronically confirm and generate the issuance of the refund. Yet the most significant control in the process, managerial approval, is not recorded electronically. Although a prepared request form is required to initiate a manual refund, and is the only document which provides proof of managerial approval, we were not always able to obtain the request form and related documentation.

The manager is the Approving Official responsible for reviewing the manual refund to ensure the validity of the transaction. This is confirmed via a manual signing of the request form. However, because the managerial approval is only notated on the request form, and not the electronic record, it reduces management's ability to identify potentially fraudulent manual refunds because of the volume of transactions.

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<sup>2</sup> IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

<sup>3</sup> A manual refund initiated via the non-IDRS process is used when manual refunds are over \$10 million, are to be paid via direct deposit, or are for hardship cases. A table with counts and dollar amounts by manual refund request type can be found in Appendix VI.



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### *Recommendations*

To improve accountability over manual refunds, we recommended that the IRS ensure the identification number of the manual refund Requestor is not overridden on the IDRS electronic data file. For non-IDRS manual refund transactions, the IRS should ensure the Requestor's employee identification number is captured in electronic data files. Also, the IRS should establish a standardized computer record that includes key information on non-IDRS manual refunds and establish a process to regularly obtain the electronic data file for use in monitoring the program. To increase accountability, the IRS should develop a process to provide for a systemic managerial approval. In the interim, the IRS should capture the identification number of the Approving Official in the IDRS and Secure Payment System electronic data files.

### *Response*

IRS management agreed with all of our recommendations and is taking actions to address the recommendations. The IRS agreed to direct employees not to overlay the Requestor's IDRS number with a generic number. The IRS also plans to submit a Unified Work Request to include an employee identification number for the originator and approving official for all manual refunds with the Transaction Code 840 refund record (contingent on funding availability). The information will be retained in an IRS electronic file. The IRS also indicated the audit trail information provided by the Unified Work Request will impact the remaining two recommendations.

The IRS provided comments regarding the missing manual refund request packages. The IRS stated the Government Accountability Office (GAO) and the IRS Chief Financial Officer tested internal controls, including requesting manual refund documents during the financial statement audit, and that no problems were identified with the process. Due to concern about the file retrieval problem we experienced, campus audit coordinators ordered the missing documents again. According to the IRS, in 12 business days they were able to account for the documents. IRS management also commented that steps were being taken to return Files operations to IRS from a contractor during the audit period, and that the backlogs during this period contributed to delays. Management's complete response to the draft report is included as Appendix VII.

### *Office of Audit Comment*

As we reported, we were unable to obtain 336 manual refund case files. In our attempt to retrieve these documents, we followed IRS procedures. Management does not specify the process that it used to retrieve these files. In discussions subsequent to our fieldwork, management advised us that it uses a special retrieval process to obtain these documents. To obtain these documents, IRS management suggested that we should have provided a listing of



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case files to sample to the IRS for retrieval. However, because of the nature of the risks associated with manual refunds, we wanted to reduce the potential for manipulation of the case files and would not have used such a process. We requested the case files using the IDRS, which is the process specified in the IRS' own internal procedures and is the process used by IRS employees requesting case files. The IRS' subsequent retrieval of the case files was by a special process outside of the process IRS employees would follow. We remain concerned that, using its normal procedures, a significant number of case files were not received.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-5916.



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*Abbreviations*

FMS	Financial Management Service
IDRS	Integrated Data Retrieval System
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration



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## *Background*

A manual refund is a refund that is not generated through normal Master File<sup>1</sup> computer processing. During Calendar Year 2007, the Internal Revenue Service (IRS) issued approximately 184,000 manual refunds totaling over \$1.5 billion to individual taxpayers and approximately 70,000 manual refunds totaling almost \$32 billion to business taxpayers. Figure 1 provides a comparison of individual and business taxpayers receiving manual refunds during Calendar Years 2005 through 2007.

**Figure 1 – Individual and Business Taxpayers Receiving Manual Refunds  
Calendar Years 2005 Through 2007**

	Calendar Year		
	2005	2006	2007
<b>Individual Taxpayers</b>	<b>177,768</b>	<b>191,323</b>	<b>183,764</b>
<b>Manual Refund Dollar Amount</b>	<b>\$1,313,639,918</b>	<b>\$1,607,039,598</b>	<b>\$1,516,216,443</b>
<b>Business Taxpayers</b>	<b>62,703</b>	<b>69,228</b>	<b>69,729</b>
<b>Manual Refund Dollar Amount</b>	<b>\$26,356,360,765</b>	<b>\$30,819,398,979</b>	<b>\$31,859,403,659</b>

*Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of IRS manual refund data.*

Manual refunds can be issued within 2 to 3 business days, compared to the 6 to 16 business days for the issuance of a Master File computer-generated refund based on the filing of a tax return. Manual refunds can be issued to any person and to any address. The name and address do not have to match the name and address on the taxpayer account from which the manual refund was generated. Most IRS functions (e.g., Accounts Management, Compliance, and the Taxpayer Advocate Service) can request the issuance of a manual refund.

Common reasons manual refunds are issued are to:

- Save the Federal Government interest.
- Help taxpayers who are experiencing a hardship.

<sup>1</sup> The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



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- Prevent offsets<sup>2</sup> during processing of injured spouse claims.
- Enable special processing of refunds over \$1 million or under \$1.
- Provide refunds to claimants on deceased taxpayer accounts.

There are two ways IRS employees can initiate a manual refund: 1) via the Integrated Data Retrieval System (IDRS),<sup>3</sup> or 2) a manual refund posting voucher (non-IDRS).<sup>4</sup>

### **Manual refunds requested via the IDRS:**

- The Requestor prepares a *Request for IDRS Generated Refund* (Form 5792).<sup>5</sup> Information from the request form is entered into the IDRS computer system by the IDRS Input Employee,<sup>6</sup> and required supporting documentation (e.g., forms related to claims for injured spouse, carryback losses, death certificates, etc.) is attached to the Form 5792. The manual refund request package is then forwarded for approval to the Approving Official (front-line business unit manager).
- The Approving Official reviews the manual refund request package to ensure the validity of the transaction and confirms this by signing the Form 5792. The Approving Official then sends the manual refund request package to the Manual Refund Unit for processing.
- An employee in the Manual Refund Unit visually matches the Approving Official's signature on Form 5792 to a book of approval signatures. If the approval signature is accepted as being a match, the employee (the IDRS Verifying Employee) then rekeys information from the Form 5792 into the IDRS to confirm the accuracy of the information input by the Requestor. If the information agrees, the transaction is forwarded systemically to the FMS<sup>7</sup>

***A total of 729,684 manual refunds totaling almost \$19 billion were requested via the IDRS for Calendar Years 2005 through 2007.***

<sup>2</sup> Internal Revenue Code Section 6402 (a), (c), (d), and (e) requires a taxpayer's overpayment to be applied to any outstanding Federal tax, non-tax child support, Federal agency non-tax debt, or State income tax obligation prior to crediting the overpayment to a future tax or making a refund. This application of a tax overpayment is called a refund offset. Refunds offset to child support, Federal agency non-tax debts, and State income tax obligations are handled by the Financial Management Service (FMS) through the Treasury Offset Program. This occurs after a refund is certified by the IRS for payment by the FMS, but before the refund check is issued or the direct deposit is transferred to the taxpayer's bank account.

<sup>3</sup> IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

<sup>4</sup> A manual refund initiated via the non-IDRS process is used when manual refunds are over \$10 million, are to be paid via direct deposit, or are for hardship cases. A table with counts and dollar amounts by manual refund request type can be found in Appendix VI.

<sup>5</sup> See Appendix V for an example of a Form 5792.

<sup>6</sup> The Input Employee may be the actual Requestor or another employee, such as a clerk. The Input Employee information, along with other systemic information, is captured in an electronic file.

<sup>7</sup> The FMS provides centralized payment, collection, and reporting services for Federal Government agencies.



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Secure Payment System.<sup>8</sup> The manual refund request package is then forwarded to a Certifying Officer.

- The Certifying Officer reviews the package and certifies the transaction on the Secure Payment System, which results in the refund being issued.
- The Form 5792, along with any original supporting documentation, is sent to Files Management for storage and retention.

**Manual refunds requested via manual refund posting voucher (non-IDRS):**

- The Requestor prepares a *Manual Refund Posting Voucher* (Form 3753),<sup>9</sup> attaches required supporting documentation, and forwards the manual refund request package for approval to an Approving Official (front-line business unit manager).
- The Approving Official reviews the manual refund request package to ensure the validity of the transaction and confirms this by signing the Form 3753. The Approving Official then sends the manual refund request package to the Manual Refund Unit for processing.
- An employee in the Manual Refund Unit visually matches the Approving Official's signature on the Form 3753 to a book of approval signatures. If the approval signature is accepted as being a match, the manual refund request package is then forwarded to a Data Entry Operator.
- The Data Entry Operator enters information directly into the Secure Payment System, bypassing the IDRS. The manual refund package is then forwarded to a Certifying Officer.
- The Certifying Officer reviews the request and certifies the transaction on the Secure Payment System, which results in the refund being issued.
- The Form 3753 and supporting documentation are sent to be recorded via a journal entry into IRS computers (this needs to be done because the refund was not initiated through the IDRS). The Form 3753 and supporting documentation are then returned to the Manual Refund Unit. A copy of the Form 3753 and supporting documentation are to be retained for 18 months after the end of the processing year. The original Form 3753 and supporting documentation are retained in the Manual Refund Unit or sent to Files Management for storage and retention.

***A total of 24,831 manual refunds  
totaling \$74.5 billion were  
requested via a manual refund  
posting voucher (non-IDRS) for  
Calendar Years 2005 through 2007.***

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<sup>8</sup> The Secure Payment System is an application that allows Government agencies to create payment schedules in a secure fashion.

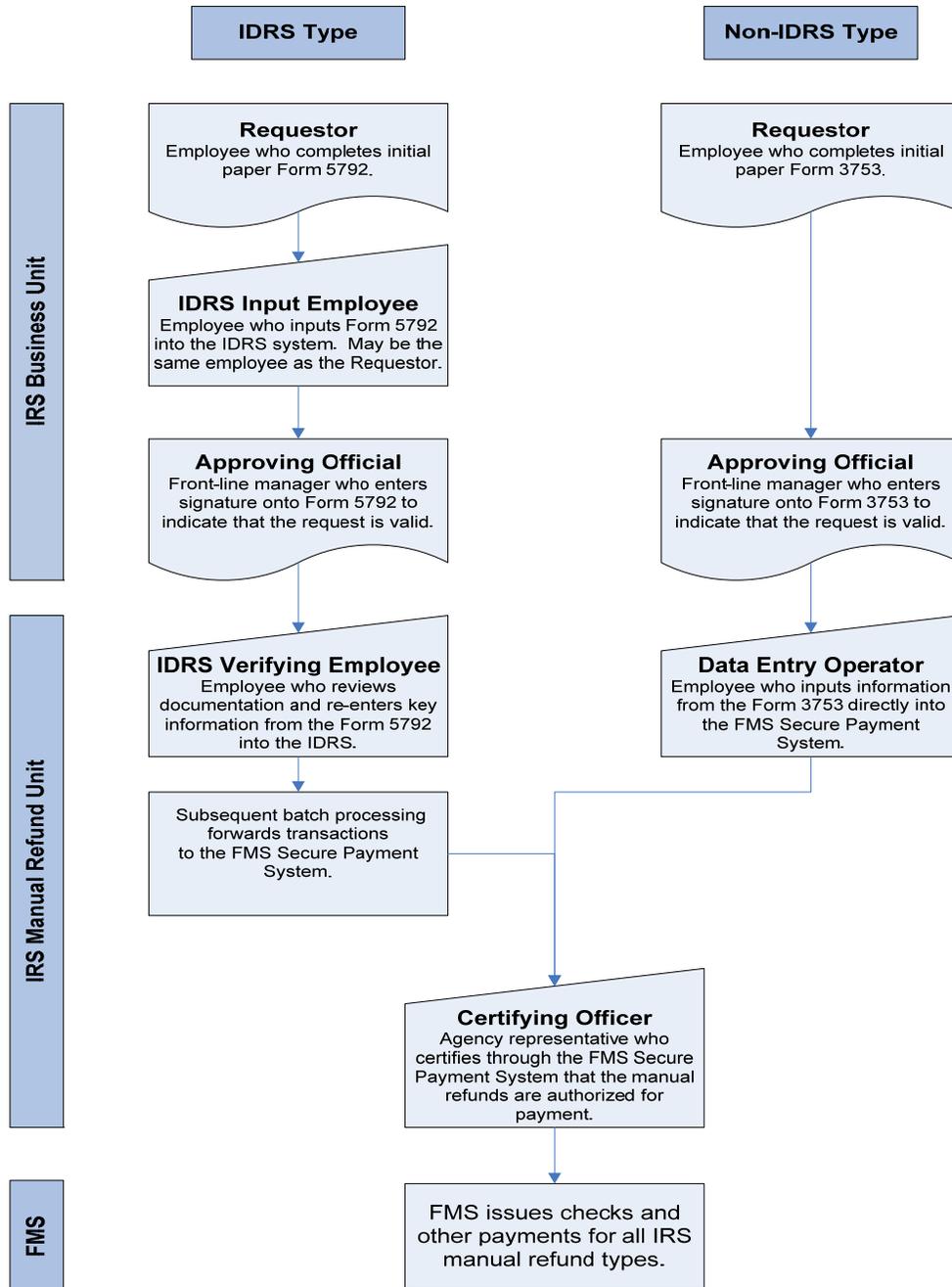
<sup>9</sup> See Appendix V for an example of a Form 3753.



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Figure 2 provides a high-level overview of the request, approval, and refund issuance process.

**Figure 2 – Employee Roles in Processing Manual Refunds**



Source: TIGTA analysis.



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**Manual refunds present a high risk of fraud**

IRS management acknowledges that the manual refund process presents a higher risk because these refunds are not processed through its normal systemic process (i.e., refunds issued based on the filing and processing of tax returns). The majority of the process to request and approve the billions of dollars in manual refunds is based on a paper-driven manual process. As such, the risk for potential issuance of fraudulent refunds is increased.

An example from another government agency illustrates the risk involved in manual refund payments. An employee of the District of Columbia government embezzled more than \$48 million over a 20-year period. The employee generated fraudulent property tax refund requests. Some documentation supporting the requests appeared to be valid and legitimate. Other supporting documentation was either absent or so disorganized that records could not be located or did not make sense. The employee perpetrating the fraud benefited from the lack of effective automated controls. Approving managers trusted this employee and did not perform adequate reviews of the refund requests.

This audit was conducted at the request of the Commissioner, Wage and Investment Division. This review was performed in coordination with FMS staff in Washington, D.C.; at the IRS National Headquarters in Washington, D.C.; at the Fresno Submission Processing Campus in Fresno, California;<sup>10</sup> and with other IRS submission processing campuses through contact with the IRS liaison during the period May 2008 through April 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>10</sup> Campuses are the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



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## *Results of Review*

Controls have been implemented in an effort to minimize the risk of issuing erroneous manual refunds. These controls include:

- Ensuring no employee can systemically input and authorize payment on the same manual refund.
- Requiring the completion of either Form 5792 or Form 3753.
- Requiring an Approving Official (front-line manager) to review manual refund request packages and approve, via signature, the legitimacy of the manual refund transaction.
- Capturing some key transactional information in an electronic audit trail<sup>11</sup> and other data files.

However, increased automated controls could further improve accountability and efficiency over manual refunds. Our review identified that electronic data files were either incomplete or contained inaccurate information; others were not always maintained by the IRS. Furthermore, the managerial approval of manual refunds is only notated on the request form and not the electronic record. Although a prepared request form is required to initiate a manual refund, and is the only document which provides proof of managerial approval, we were not always able to obtain the request form and related documentation.

***The current process to request and approve manual refunds is paper driven. Increased automated controls are needed to improve accountability.***

Adequate information should be captured in electronic data files<sup>12</sup> to enable IRS management and its external oversight organizations to perform computer analyses in an attempt to identify potentially erroneous manual refunds. The conditions cited above reduce management's ability to identify potentially fraudulent or erroneous manual refunds because of the lack of access to adequate reliable information and the volume of transactions. Given the dollar amounts involved with manual refunds, this could result in a significant loss of Federal Government revenues.

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<sup>11</sup> Electronic audit trails maintain a record of system activity both by system and application processes and by user activity of systems and applications. Audit trails help managers maintain individual accountability. By advising users that they are personally accountable for their actions, which are tracked by an audit trail that logs user activities, managers can help promote proper user behavior. Users are less likely to attempt to circumvent security policy if they know that their actions will be recorded in an audit trail. Although audit trails are essential to auditors, they are also important to agencies in their day-to-day operation of a system. Audit trails provide agencies with information necessary to reconcile accounts, research document history, and query the data stored in the system.

<sup>12</sup> Electronic data files capture transactional data from the IDRS or other application programs.



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## ***Electronic Data Files Supporting Manual Refund Transactions Were Inaccurate, Incomplete, and Not Always Maintained***

The IRS has implemented some controls, such as separation of duties, over the manual refund process that ensure the same individual cannot systemically both request and approve a manual refund. However, the IRS does not consistently capture and retain key information relative to manual refund transactions in its electronic data files. Additionally, although prepared request forms are required to initiate a manual refund, we were not always able to obtain the request forms and related documentation. The inaccurate, incomplete, and unretained electronic data files indicate that IRS management does not have the necessary information and has not included the use of electronic data files in its process to monitor the effectiveness of internal controls in reducing the risk of issuing erroneous manual refunds. *Standards for Internal Control in the Federal Government*<sup>13</sup> require that information be recorded and communicated to management and others within the entity who need it and in a form and within a period that enables them to carry out their internal controls and other responsibilities. If improvements are not made, both the IRS and its oversight organizations will be unable to effectively assess a multibillion dollar high-risk process.

### **Systemic controls provide for adequate separation of duties**

Both the IDRS and the non-IDRS processes systemically prevent the same employee from inputting and forwarding a request for payment for the same manual refund:

- The IDRS does not allow the same employee to both input a manual refund request and forward a request for payment for the same manual refund. We observed that the IDRS Input Employee is systemically prevented from also acting as the IDRS Verifying Employee for IDRS-generated refunds. In addition, audit trail data of IDRS command codes used to input and approve payment are kept by the IRS and contain information on who input the transaction, what taxpayer account was accessed, and when the action occurred. Our analysis of the IDRS audit trails confirmed that no employee acted as both the IDRS Input Employee and the IDRS Verifying Employee for the same manual refund.
- For the non-IDRS requests, the Secure Payment System prevents the same employee from inputting and approving payment for the same manual refund. Representatives from the FMS confirmed that Secure Payment System systemic controls prevent the same person from having Data Entry Operator access (ability to input a manual refund request) and Certifying Officer access (ability to approve the issuance of a manual refund) for the same manual refund transaction. The FMS has implemented access and password security controls over the system. Our analysis of transactional information we obtained from the FMS verified that none of the manual refund records were input and approved by the same employee.

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<sup>13</sup> *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, dated November 1999).



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**Electronic data files capture certain manual refund transactional information, but improvements are needed to increase accuracy and completeness**

Both the IRS and the FMS are capturing certain transactional information relating to manual refunds issued via the IDRS and non-IDRS (directly through the Secure Payment System) methods. For IDRS requests, the audit trail file captures the identity of the employees who input and approve payment for IDRS manual refunds. For most IDRS transactions, the employee number for the employee who requested the manual refund, although not captured on the audit trail file, is input to the IDRS along with other information on the Form 5792. For non-IDRS requests, the FMS Secure Payment System data file includes the identities of the IRS employees who input the manual refund transactions, along with the IRS employees who certified the refunds for payment.

However, electronic data files did not always accurately reflect the IRS employee initiating a manual refund. Specifically, we identified that:

- Invalid Requestor employee numbers<sup>14</sup> for thousands of IDRS manual refund transactions have been recorded in the IDRS.
- The Requestor identity for non-IDRS transactions is never recorded in an electronic data file.

Our review identified over 58,000 manual refund transactions for which the electronic data files did not accurately identify the Requestor. Specifically, from 2005 through 2007:

- Over 33,000 manual refund transactions initiated via the IDRS had an invalid employee identification number for the Requestor. The IRS sometimes overlaid the employee number with a non-employee number to generate a single listing of manual refund posting activity from the requesting unit. Instead of the Requestor's employee number being used as the employee needing to monitor the account, a unit employee number is used to help ensure at least one employee in the unit monitors the account. The purpose is to facilitate oversight and address a known internal control weakness that allowed erroneous refunds to be issued.<sup>15</sup> Nevertheless, omitting the Requestor identity from the electronic records has

***Over 58,000 manual refund transactions did not have accurate Requestor information on the electronic record.***

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<sup>14</sup> The IDRS employee number is a unique number that identifies each employee on the IDRS.

<sup>15</sup> Government Accountability Office reviews have found that the IRS has not provided sufficient monitoring of manual refund transaction postings. Refund Requestors are required to monitor taxpayer accounts for which they have requested a manual refund until the manual refund transactions have posted. In some cases, this monitoring process was not successful, and duplicate refunds were issued to taxpayers because both a manual refund and a computer-generated refund were issued, resulting in erroneous duplicate refunds to taxpayers. See *Management Report: Improvements Needed in IRS' Internal Controls* (GAO-07-689R, dated May 11, 2007) and *Management Report: Improvements Needed in IRS' Internal Controls* (GAO-05-247R, dated April 27, 2005).



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reduced the ability to trace transactions to requesting employees and to detect suspicious employee activity.

- Almost 25,000 non-IDRS manual refund requests did not have the Requestor identity captured in an electronic data file. This results from non-IDRS manual refund requests being input directly to the Secure Payment System by a Manual Refund Unit Data Entry Operator, rather than by the requesting employee. Again, omitting the Requestor identity from the electronic records has reduced the ability to trace transactions to requesting employees and to detect suspicious employee activity. Adding to this concern, all manual refunds of \$10 million and over must be requested via a non-IDRS manual refund request.

The lack of data to identify the Requestor of the manual refund reduced our ability to identify potentially fraudulent manual refund transactions because we were unable to perform data analysis (see Appendix IV) to determine if a relationship exists between the recipient of the manual refund and the Requestor. See Figure 3 for a summary of the manual refunds for which the electronic data file did not accurately reflect the Requestor initiating the refund.

**Figure 3 – Manual Refunds for Which Electronic Data  
Did Not Accurately Reflect the Requestor Initiating the Refund**

	Calendar Year		
	2005	2006	2007
<b>IDRS refunds with invalid employee number</b>	573	13,863	19,272
	\$867,764	\$25,056,087	\$42,363,542
<b>Non-IDRS refunds for \$10 million or more</b>	508	540	623
	\$19,278,461,025	\$23,200,977,589	\$22,512,915,253
<b>Non-IDRS refunds for less than \$10 million</b>	7,293	7,235	8,632
	\$2,780,225,593	\$3,125,151,411	\$3,646,794,375
<b>Totals</b>	8,374	21,638	28,527
	\$22,059,554,382	\$26,351,185,087	\$26,202,073,170

Source: TIGTA analysis of IRS manual refund data.



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**The IRS did not maintain Secure Payment System transactional files and the format of data captured was not consistent, which reduces the ability to perform data analysis**

The IRS does not retain Secure Payment System electronic data files from the FMS (these are the files that capture information relating to non-IDRS manual refunds). IRS management noted that the paper trail is adequate for historic purposes and that the FMS retains the non-IDRS manual refund file information. However, discussions with FMS personnel identified that it would be difficult for the IRS to access historic Secure Payment System files because they are stored in archives that are not readily accessible to the FMS as part of routine operations. It took the FMS almost 2 months to provide us our requested Secure Payment System data output.

In addition, the Secure Payment System file with non-IDRS transactions we obtained from the FMS was difficult to work with due to the different formats used in the description fields where taxpayer information (e.g., who the refund was issued to, type of tax return, or tax period) is located. For example:

- The type of tax return was not consistently identified. Either a code or a form number could be used to indicate to what tax return the refund related (e.g., Master File Tax Code 30 or Form 1040).
- The tax year was not consistently documented. The tax year could be indicated by a format with 4 or 6 digits for the month and year (e.g., 0612 or 200612 to indicate December 2006).
- The location (starting character number) of this information varied within the field.

Examples of actual descriptions include:

- 200512 F 1040 IRS FRESNO
- RMT\*TN\*F1040 TY9912\*03/79.26\*04/3.65
- F1040 TY9412
- 30 200512 82

Consequently, even if the IRS was to retain copies of the data, analysis would be very difficult. While the meaning could usually be determined by a visual examination of the field contents, it was extremely difficult to extract by a computer program. By developing a standardized description format, the IRS would be able to conduct computerized analyses of these manual refunds.

**Request forms are required to be prepared, but some were missing**

The IRS was unable to provide us with 336 (39 percent) of the 851 manual refund request packages we requested. Specifically, IRS procedures require either a Form 5792 or Form 3753 to be prepared by an employee requesting a manual refund. The IRS noted that the request forms and attachments are the key support for manual refund transactions. The request forms are the



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only source of information that can be used to identify the Approving Official who approved the request information.

*Standards for Internal Control in the Federal Government* state that transaction documentation, whether paper or electronic, should be readily available for examination and all documentation and records should be properly managed and maintained. The unavailability of both paper and electronic records increases the risk that fraud could occur and remain undetected.

**Transactions having certain characteristics have been referred to the Office of Investigations**

Because the Requestor of the manual refund could not be identified from the data file, we were unable to perform tests (see Appendix IV) to determine if a relationship exists between the recipient of a manual refund and the Requestor. However, based on our risk assessment, we have identified individual and business manual refund transactions that we consider to have characteristics that increase the potential that the refund could have been inappropriately issued. We have referred these transactions to our Office of Investigations. These manual refund transactions include refunds to taxpayers or addresses that are different from the owner of the tax account. We will continue to work jointly with our Office of Investigations to identify IRS employees that may have inappropriately issued a manual refund.

***Recommendations***

The Commissioner, Wage and Investment Division, should:

**Recommendation 1:** Ensure the Requestor's employee identification number is not overridden on the IDRS electronic data file.

**Management's Response:** IRS management agreed with this recommendation. The Internal Revenue Manual 21.4.4 has been revised to require that a separate control be established in the IDRS for monitoring all manual refunds. An interim procedural update will direct employees not to overlay the Requestor's IDRS number with a generic number when initiating IDRS manual refunds.

**Recommendation 2:** Ensure the Requestor's employee identification number is captured in electronic data files for non-IDRS manual refunds.

**Management's Response:** IRS management agreed with this recommendation. A Unified Work Request will be submitted by October 1, 2009, to include the Standard Employee Identification number of the Requestor and Approving Official for all manual refunds. This information will be included in the Transaction Code 840 refund record that displays on the Master File and Non-Master File. Form 3753 and Form 5792 will be updated to capture the Requestor's and Approving Official's Standard Employee



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## *Increased Automated Controls Could Further Improve Accountability Over Manual Refunds*

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Identification number. Implementation is contingent upon Modernization and Information Technology Services funding.

**Recommendation 3:** Establish a process to regularly obtain the electronic data file that includes key information relative to those non-IDRS manual refunds for use in monitoring the manual refund program.

**Management's Response:** IRS management agreed with this recommendation. The Unified Work Request that the IRS is submitting for corrective action to Recommendation 2 (to update the Transaction Code 840 refund record for manual refunds) will give the IRS the required information that can be maintained as an electronic file. This file will be supported by Modernization and Information Technology Services and available on request.

**Recommendation 4:** Establish input procedures for non-IDRS manual refund requests entered into the Secure Payment System to include a standardized computer record. The standardized record format with key information will allow for easy data analysis.

**Management's Response:** IRS management agreed with the need for an audit trail and computer records. Although the IRS will not be changing the Secure Payment System, the Unified Work Request to update the Transaction Code 840 refund record for manual refunds will allow the Master File to store an electronic audit trail for easy data analysis. Implementation is contingent upon Modernization and Information Technology Services funding.

## ***Recording Managerial Approval Electronically Could Increase Accountability***

***The managerial approval process is manual, vulnerable to circumvention, and difficult to evaluate because of the volume of transactions.***

The managerial approval process is a manual, resource-intensive process. Current processes enable IRS employees to electronically request manual refunds, electronically confirm the accuracy of information, and electronically confirm and generate the issuance of the refund. Yet the most significant control in the process, managerial approval, is not recorded electronically. The

manager is the Approving Official responsible for reviewing the manual refund to ensure the validity of the transaction. This is confirmed via the manager's written signature on the manual refund request form. However, the volume of manual refund transactions, combined with the fact that managerial approval is only notated on the paper request form (and not the electronic record), reduces management's ability to identify potentially fraudulent manual refunds.

Each time a new Approving Official is added or there is a change to the status of an Approving Official, new signature sheets need to be obtained and maintained in the signature verification



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log (or removed from the log). Additionally, current signature sheets should be updated at least annually. Manual Refund Units are located at seven IRS campuses, and each campus maintains its own book of applicable managers' signatures. As of June 2008, there were a total of almost 2,200 Approving Official signature sheets throughout the 7 IRS campuses. This paper process presents the risk that someone can circumvent the approval control by forging a manager's signature.

The IRS already uses automated authentication processes. Both the IDRS and the Non-IDRS manual refund request methods include automated processes that record the individuals who input (the IDRS Input Employee or the Data Entry Operator) and approve payment (the Certifying Officer) on manual refunds. This process also includes programming that prevents issuance if the data does not match for the two commands that are used. These commands are captured in the audit trail data along with dozens of other types of system access commands. However, although the review and approval by a manager is the key control to ensure the legitimacy of a manual refund request, no electronic process has been established to systemically capture the Approving Official on the electronic record of the transaction.

One way to capture Approving Official identity for manual refunds requested via the IDRS would be to have an additional command added to the IDRS for an Approving Official entry, similar to the two commands that already exist for input by the IDRS Input Employee and payment approval by the IDRS Verifying Employee. This would allow for the Approving Official identity to be included in the audit trail files automatically for the existing system. Including this information in electronic files could enable the IRS and its external oversight organizations to efficiently review the data to ensure management is approving each transaction. Establishing such a process to replace the current paper signature approval process would increase the efficiency of the approval process and help minimize the potential of a manager's signature being forged.

IRS management believes that the preparation of the manual refund request form, along with the Approving Official's signature, provides an adequate audit trail supporting the initiation and approval of a manual refund. IRS management stated that the current manual system is adequate, such changes would not be a high priority, and programming changes required for an electronic approval would be too expensive. However, they did not provide information to show that such a programming change would be a significant expense.

The IRS has recently begun to scan and store manual refund documentation from the Centralized Insolvency Unit in Philadelphia to make this information accessible to all submission processing centers. This process is newly developed; however, if the IRS is successful in scanning and storing this information and the process is cost-effective and more efficient, then this process could be expanded to include all manual refund request forms.



*Increased Automated Controls Could Further Improve  
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***Recommendation***

The Commissioner, Wage and Investment Division, should:

**Recommendation 5:** Develop a process to provide for a systemic managerial approval to increase accountability. In the interim, the IRS should capture the identification number of the Approving Official in the IDRS and Secure Payment System electronic data files.

**Management's Response:** With regard to this recommendation, implementation of Recommendation 2 will result in the IDRS capturing the identification number of the Approving Official. The IRS does not own or control the Secure Payment System and cannot change the files in this FMS system. The proposed changes to the IDRS will provide the necessary electronic audit trail.



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*Increased Automated Controls Could Further Improve  
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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall audit objective of this review was to determine if controls over manual refunds are effective in minimizing the risk of issuing erroneous refunds. Our audit scope included both individual and business manual refunds of \$400 or more issued during Calendar Years 2005, 2006, and 2007. To determine if the controls over manual refunds are effective we:

- I. Researched prior manual refund issues and previously reported control breakdowns.
  - A. Requested information from the TIGTA Office of Investigations relating to manual refund investigations.<sup>1</sup>
  - B. Obtained and reviewed audit report findings reported by the Government Accountability Office.
  - C. Reviewed Internal Revenue Manual guidelines to identify procedures followed for initiating, approving, and issuing manual refunds.
- II. Analyzed electronic manual refund data files (Individual and Business Master File<sup>2</sup> and Manual Refund IDRS<sup>3</sup> Processing files) from the TIGTA Data Center Warehouse to identify potential fraud cases. We relied on data validity and reliability checks routinely done by the Data Center Warehouse staff for these files. Our analysis included:
  - A. Identifying employees who initiated and approved a manual refund for Calendar Years 2005 through 2007.
    1. Obtaining refund transaction files for both individual and business manual refunds.
    2. Querying electronic files to identify employees initiating and approving a manual refund.
    3. Reviewing supporting paper manual refund packages for selected transactions of interest to determine if any evidence of fraud, wrongdoing, or other suspicious transactions should be referred to the TIGTA Office of Investigations.

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<sup>1</sup> There were no proven cases of employee manual refund thefts.

<sup>2</sup> The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

<sup>3</sup> IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.



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- III. Analyzed IDRS security profiles to identify IRS employees who have the ability to initiate and approve manual refunds. These files were obtained from the TIGTA Data Center Warehouse. Reliability was assessed with respect to cases reviewed, and no errors came to our attention during the review. In addition, we reviewed security controls over FMS-issued manual refunds.
- A. Obtained IDRS security profiles for all IRS employees.
  - B. Identified IRS employees having command codes to both initiate and approve a manual refund and determined whether any of those employees improperly initiated and approved a manual refund.
  - C. Contacted the FMS<sup>4</sup> to obtain a listing of all IRS employees having Secure Payment System<sup>5</sup> access.
  - D. Analyzed the security profile data to determine if IRS employees had the ability to input and certify payment of manual refunds.
- IV. Analyzed audit trail data files obtained from the TIGTA Data Center Warehouse to identify indications of IRS employees that may have fraudulently obtained manual refunds. We relied on the data validity and reliability checks routinely done by the TIGTA Data Center Warehouse staff for these files. Specific tests included:
- A. Obtained audit trail files containing IRS employee accesses to accounts from which manual refunds were issued during Calendar Years 2005 through 2007.
  - B. Analyzed audit trail data files to determine if IRS employees have initiated and approved a manual refund for the same taxpayer.
  - C. Analyzed audit trail data files to determine if IRS employees initiated and approved manual refunds to identify potential indications of fraud.
    - 1. Identified manual refunds issued to an IRS employee.
    - 2. Identified manual refunds that were mailed to addresses near the initiating or approving IRS employees' addresses.

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<sup>4</sup> The FMS provides centralized payment, collection, and reporting services for Federal Government agencies.

<sup>5</sup> The Secure Payment System is an application that allows Government agencies to create payment schedules in a secure fashion.



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**Appendix II**

*Major Contributors to This Report*

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)

Russell Martin, Director

Richard J. Calderon, Audit Manager

Mary Jankowski, Lead Auditor

Sharon A. Buford, Senior Auditor

Kenneth L. Carlson, Senior Auditor

Karen C. Fulte, Senior Auditor

Glory Jampetero, Senior Auditor

John Mansfield, Senior Auditor

Steven Stephens, Senior Auditor

Jennie Choo, Auditor

Jane Lee, Auditor



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## Appendix III

### *Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Deputy Commissioner for Services and Enforcement SE  
Commissioner, Large and Mid-Size Business Division SE:LM  
Commissioner, Small Business/Self-Employed Division SE:S  
Commissioner, Tax Exempt and Government Entities Division SE:T  
Deputy Commissioner, Large and Mid-Size Business Division SE:LM  
Deputy Commissioner, Small Business/Self-Employed Division SE:S  
Deputy Commissioner, Tax Exempt and Government Entities Division SE:T  
Deputy Commissioner, Wage and Investment Division SE:W  
Chief, Appeals AP  
Chief Technology Officer OS:CTO  
Director, Communications and Liaison, Tax Exempt and Government Entities Division  
SE:T:CL  
Director, Communications, Liaison, and Disclosure, Small Business/Self-Employed Division  
SE:S:CLD  
Director, Customer Account Services, Wage and Investment Division SE:W:CAS  
Director, Examination, Small Business/Self-Employed Division SE:S:E  
Director, Exempt Organizations, Tax Exempt and Government Entities Division SE:T:EO  
Director, Field Specialists, Large and Mid-Size Business Division SE:LM:FS  
Director, Communication and Liaison, Large and Mid-Size Business Division SE:LM:M:CL  
Chief, Program Evaluation and Improvement SE:W:S:PRA:PEI  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaisons:  
    Commissioner, Large and Mid-Size Business Division SE:LM:CL  
    Commissioner, Small Business/Self-Employed Division SE:COM  
    Commissioner, Tax Exempt and Government Entities Division SE:T:CL  
    Chief, Program Evaluation and Improvement SE:W:S:PRA:PEI  
    Chief, Appeals AP:TP:SS



*Increased Automated Controls Could Further Improve  
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**Appendix IV**

*Relationship and Location Tests*

1. High volume of manual refund requests with same initiating employee and same forwarding employee combination.
2. Manual refunds issued to taxpayers with an IRS employee relationship to the Requestor.
3. Large dollar manual refunds issued by employees less than 2 weeks before or after an employee separates from the IRS.
4. Manual refunds issued to address near address of requesting employee, such as a neighbor or relative.
5. Manual refunds requested by same requesting employee to same taxpayer in different years.
6. Manual refunds initiated and approved by the same employee for Calendar Years 2005 through 2007.



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**Appendix V**

*Examples of Manual Refund Request Forms*

**Form 5792**

<b>Request for IDRS Generated Refund (IGR)</b>															
<b>Section I. Account Information</b>															
Command Code <b>RFUND</b>		1. TIN and file source			2. MFT code		3. Tax period		4. Name control						
5. TC 840 amount		6. TC 770 amount		7. Overpayment amount		8. Line No. (See IDRS CC RFUND Input (IRM 2.4.20))		9. Int'st ind.	10. ULC code	11. Sequence number	12. Block series no.				
13. 1st Name line <div style="border: 1px solid black; height: 15px; width: 100%;"></div>															
14. 2nd Name line (Line out if not used)															
15. 3rd Name line (Line out if not used)															
16. 4th Name line (Line out if not used)															
17. Street address or P.O. number (Must include apartment number, if applicable) <div style="border: 1px solid black; height: 15px; width: 100%;"></div>															
18. City <div style="border: 1px solid black; height: 15px; width: 100%;"></div>						State <div style="border: 1px solid black; height: 15px; width: 100%;"></div>		ZIP code <div style="border: 1px solid black; height: 15px; width: 100%;"></div>							
19. Remarks								20. DLN of return							
								21. Bankruptcy code case <input type="checkbox"/>		22. TC 130 <input type="checkbox"/>					
<b>Section II. Manual Refund Authority (Complete applicable items)</b>															
1. Reason: a. <input type="checkbox"/> Tentative Carryback b. <input type="checkbox"/> Taxpayer Request c. <input type="checkbox"/> Handbook Reference _____ d. <input type="checkbox"/> Other _____			4. <input type="checkbox"/> Transcript of debit accounts attached			7. <input type="checkbox"/> Verify refund amount with source document amount			8. <input type="checkbox"/> All items above completed						
2. <input type="checkbox"/> TC 420/424 on module (Examination approval req'd.)			5. Evidence of Credit Condition: a. <input type="checkbox"/> Unprocessed document or return b. <input type="checkbox"/> Transcript of account c. <input type="checkbox"/> Form 3913 (returned check) d. <input type="checkbox"/> Other (Specify) _____			9. <input type="checkbox"/> TC 914 or Z freeze on module. (Criminal investigation approval req'd.)			10. <input type="checkbox"/> Interest Reviewed Over \$1 Million _____						
3. <input type="checkbox"/> IDRS and Master File researched for outstanding balances and TC 130			6. <input type="checkbox"/> Necessary supporting documents attached			11. <input type="checkbox"/> By Pass Indicator (BPI) See IRM 21.4.6. _____									
<b>Section III. Interest Computation (Line through interest blocks not used)</b>										<b>Interest to date</b> <span style="font-size: small;">▶</span>					
Amount		\$		\$		\$		\$		<b>Total Interest</b>					
Interest factor															
Dates		Year	Month	Day	Year	Month	Day	Year	Month	Day					
To															
From															
Interest Period															
Amount of interest		\$		\$		\$		\$		\$					
<b>Section IV. Manual Refund Approval</b>															
1. No. of employee inputting RFUND via IDRS		2. Request prepared by: (Include Employee ID # or Badge #, if applicable)				4. Signature of Approving Official				5. Date					
						4a. Printed Name Here									
		3. Phone no.													
Form 5792 (Rev. 7-2004)				Cat. No. 24254G				<b>Part I - File Copy</b>				Department of the Treasury Internal Revenue Service			



*Increased Automated Controls Could Further Improve  
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## Form 3753

Special Handling		(For Accounting Use Only)								
<b>Manual Refund Posting Voucher</b>		DLN of Form 3753								
To <b>Accounting</b>		From and Return to (Originating Team and Dept)								
<b>Section I. Account Information</b>										
1. TIN (EIN/SSN)	2. Tax period (yyyy/mm)	3. MFT	4. Schedule number	5. Schedule/Transaction date (mm/dd/yyyy)						
6. Name and address of taxpayer as shown on Master File		7. Form Number	8. DLN of return							
		9. Transaction Code	a. Primary 840	b. Amount of refund check						
10. Make check payable to:			c. Secondary 770	d. Interest						
		11. General Ledger/Appropriation		12. Overpayment amount						
If different than taxpayer explain below in Section II.		a. Symbol	b. Amount	13. Universal Location Code (ULC)						
		14. Line number		See IDRS CC REFUND Input IRM 2.4.20						
<b>Section II. Manual Refund Authority (Complete applicable items)</b>										
<b>1. Reason:</b>		<b>2. Evidence of Credit Condition:</b>		<b>3. Interest:</b>						
a. <input type="checkbox"/> Tentative carryback		a. <input type="checkbox"/> Unprocessed document or return		a. <input type="checkbox"/> Not allowable						
b. <input type="checkbox"/> Taxpayer request		b. <input type="checkbox"/> Transcript of account		b. <input type="checkbox"/> Restricted						
c. <input type="checkbox"/> Handbook reference _____		c. <input type="checkbox"/> Form 3913 (returned check)		c. <input type="checkbox"/> Normal						
d. <input type="checkbox"/> Other _____		d. <input type="checkbox"/> Other (Specify) _____		d. <input type="checkbox"/> Reviewed over \$1 Million						
<input type="checkbox"/> All items above completed		<input type="checkbox"/> IDRS and Master File researched for outstanding balance and TC 130.		<input type="checkbox"/> Stopped pending TC 840 or TC 846.						
<input type="checkbox"/> TC 914 or Z freeze on module. (Criminal investigation approval rec'd)		<input type="checkbox"/> Transcript of debit accounts attached.		<input type="checkbox"/> By Pass Indicator _____ See IRM 21.4.6						
<input type="checkbox"/> TC 420/424 on module. (Examination approval rec'd)		<input type="checkbox"/> Necessary supporting documents attached.		<input type="checkbox"/> Yes (Allow TOP Offset, BPI-0)						
		<input type="checkbox"/> Universal IDRS researched - no TC 840 pending or TC 846 posted.		<input type="checkbox"/> No (BPI-3)						
<b>Section III. Interest Computation (Line through interest blocks not used)</b>										
Amount	\$	\$	\$	Total Interest						
Interest factor										
Dates	Year	Month	Day		Year	Month	Day	Year	Month	Day
To										
From										
Interest Period										
Amount of Interest	\$	\$	\$	\$						
<b>Section IV. Other Remarks:</b>										
<b>Section V. Manual Refund Approval</b>										
1. Signature of Approving Official		2. Print Name and Title								
3. Employee Name, IDRS number and Badge #			4. Date	5. Phone Number						
Form 3753 (Rev. 8-2006)    Cat. No. 22450W    Part I - Input Document    Department of the Treasury - Internal Revenue Service										



*Increased Automated Controls Could Further Improve  
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**Appendix VI**

*Comparison by Type of Manual Refund Request  
Calendar Years 2005 Through 2007*

Individual Taxpayers	Calendar Year		
	2005	2006	2007
<b>IDRS</b>	<b>171,839</b>	<b>185,686</b>	<b>178,045</b>
<b>Manual Refund Dollar Amount</b>	<b>\$ 898,113,002</b>	<b>\$ 938,161,114</b>	<b>\$ 1,036,229,311</b>
<b>Manual Posting (Non-IDRS)</b>	<b>5,929</b>	<b>5,637</b>	<b>5,719</b>
<b>Manual Refund Dollar Amount</b>	<b>\$ 415,526,916</b>	<b>\$ 668,878,484</b>	<b>\$ 479,987,132</b>

Business Taxpayers	Calendar Year		
	2005	2006	2007
<b>IDRS</b>	<b>60,831</b>	<b>67,090</b>	<b>66,193</b>
<b>Manual Refund Dollar Amount</b>	<b>\$ 4,713,201,063</b>	<b>\$ 5,162,148,463</b>	<b>\$ 6,179,681,163</b>
<b>Manual Posting (Non-IDRS)</b>	<b>1,872</b>	<b>2,138</b>	<b>3,536</b>
<b>Manual Refund Dollar Amount</b>	<b>\$ 21,643,159,702</b>	<b>\$ 25,657,250,516</b>	<b>\$ 25,679,722,496</b>

Source: TIGTA analysis of IRS manual refund data.



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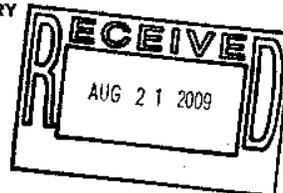
**Appendix VII**

*Management's Response to the Draft Report*



COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308



AUG 21 2009

MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr. *Richard Byrd, Jr.*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Increased Automated Controls Could  
Further Improve Accountability Over Manual Refunds  
(Audit #200840033)

I have reviewed the subject draft report and agree with your finding that increased automated controls could further improve accountability over manual refunds. While we have controls in place to minimize the risk of issuing erroneous manual refunds, our long term strategy is to reduce the need for manual refunds.

Currently, the most common reason for manual refunds is to issue a refund to a taxpayer in a more timely fashion than is currently possible because of the weekly processing cycles in Master File (MF). The Customer Account Data Engine (CADE) will enable daily posting and daily exchange of information with IDRS and significantly decrease the need for manual refunds.

The current process for issuing manual refunds is a paper driven, manual process. Maintaining audit trails is critical and the use of electronic audit trails certainly strengthens the internal controls. Planned improvements to the process will enable the Integrated Data Retrieval System (IDRS) to contain key information for maintaining accountability and an audit trail for all manual refunds. These enhancements will enable the paper audit trail to be backed up by readily available electronic data.

I understand that during this audit you were not able to retrieve some of the manual refund documents for the review. Both the Government Accountability Office (GAO) and the IRS Chief Financial Officer (CFO) test these internal controls, including requesting manual refund documents during the financial statement audit. No problems have been identified with this process.

Therefore, we were very concerned about the file retrieval problem you reported, and on July 22, 2009, the 336 missing documents were again ordered by our campus audit



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coordinators to validate your findings. In 12 business days, we were able to account for the documents in the cases. We located and received 288 documents (86 percent). The 48 remaining documents were charged out and accounted for. Sixteen of them were located in a TIGTA office.

We did not experience any issues with the document retrieval or audit trails. As you know, during the period of your audit work, the IRS was taking steps to return the IRS Files operation to the IRS from the contractor, IAP World Wide Services Inc. We experienced backlogs in Federal Records Center (FRC) during this period. Subsequently, we resolved the backlogs and inventories are current. As we shared with you during the audit close-out, it appears that this contributed to the delays you experienced in retrieving the documents.

Our responses to your recommendations are attached. If you have any questions, please call me at (404) 338-7060, or a member of your staff may contact Peter J. Stipek, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Attachment



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*Increased Automated Controls Could Further Improve  
Accountability Over Manual Refunds*

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Attachment

The Commissioner, Wage and Investment Division, should:

**RECOMMENDATION 1**

Ensure the Requestor's employee identification number is not overridden on the IDRS electronic data file.

**CORRECTIVE ACTION**

We agree with the recommendation. The Internal Revenue Manual (IRM) 21.4.4 has been revised to require that a separate control be established in the Integrated Data Retrieval System (IDRS) for monitoring all manual refunds. An interim procedural update will direct employees not to overlay the requestor's IDRS number with a generic number when initiating IDRS manual refunds using command code RFUND.

**IMPLEMENTATION DATE**

October 15, 2009

**RESPONSIBLE OFFICIAL**

Director, Accounts Management, Customer Account Services, Wage & Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

This corrective action will be monitored as part of our internal managerial control system.

**RECOMMENDATION 2**

Ensure the Requestor's employee identification number is captured in electronic data files for non-IDRS manual refunds.

**CORRECTIVE ACTION**

We agree with this recommendation. A Unified Work Request (UWR) will be submitted by October 1, 2009, to include the Standard Employee Identification (SEID) number of the originator and approving official for all manual refunds. This information will be included in the Transaction Code (TC) 840 refund record that displays on the Master File (Individual Master File/Business Master File) and Non-Master File. Form 3753, *Manual Refund Posting Voucher*, and Form 5792, *Request for IDRS Generated Refund*, will be updated to capture the employee and approving officials SEID. Implementation is contingent upon Modernization and Information Technology Services (MITS) funding.

**IMPLEMENTATION DATE**

January 15, 2011



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*Increased Automated Controls Could Further Improve  
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**RESPONSIBLE OFFICIAL**

Director, Submission Processing, Customer Account Services, Wage & Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

This corrective action will be monitored as part of our internal managerial control system.

**RECOMMENDATION 3**

Establish a process to regularly obtain the electronic data file that includes key information relative to those non-IDRS manual refunds for use in monitoring the manual refund program.

**CORRECTIVE ACTION**

We agree with this recommendation. The UWR request we are submitting for corrective action 2, to update the TC 840 refund record for Manual Refunds (Form 3753/Form 5792) will give us the required information that can be maintained as an electronic file. This file will be supported by MITS and available on request.

**IMPLEMENTATION DATE**

January 15, 2011

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, Customer Account Services, Wage & Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

This corrective action will be monitored as part of our internal managerial control system.

**RECOMMENDATION 4**

Establish input procedures for non-IDRS manual refund requests entered into the Secure Payment System to include a standardized computer record. The standardized record format with key information will allow for easy data analysis.

**CORRECTIVE ACTION**

We agree with the need for an audit trail and computer records. Although we will not be changing the Secure Payment System, the UWR to update the TC 840 refund record for Manual Refunds (Form 3753/Form 5792) will allow Master File to store an electronic audit trail for easy data analysis. Implementation is contingent upon MITS funding.



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*Increased Automated Controls Could Further Improve  
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3

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 5**

The Commissioner, Wage and Investment Division, should develop a process to provide for a systemic managerial approval to increase accountability. In the interim, the IRS should capture the identification number of the Approving Official in the IDRS and Secure Payment System electronic data files.

**CORRECTIVE ACTION**

With regards to this recommendation, implementation of Recommendation 2 will result in IDRS capturing the identification number of the approving official. The IRS does not own or control the Secure Payment System and cannot change the files in this Financial Management Service system. The proposed changes to IDRS will provide the necessary electronic audit trail.

**IMPLEMENTATION DATE**

January 15, 2011

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, Customer Account Services, Wage & Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

This corrective action will be monitored as part of our internal managerial control system.